New Jersey Economic Insights

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Outlook New Jersey

Superstorm Sandy's Impact and the Fiscal Cliff Add New Uncertainties to the Economic Picture

New Jersey

New Jersey's indicators were mixed before Superstorm Sandy battered the state at the end of October. The state's unemployment rate edged down from the disturbing 9.9 percent it reached in August. Small drops in September and October brought the rate down to 9.7 percent. That, of course, is much too high, but at least the direction was right in the two months just before the storm. On the other hand, the state shed jobs in September and October, while employment growth continued in the nation at large. Keep in mind that the October number is subject to revision and that two months of data do not make a meaningful trend, but clearly job creation did not match the big gains seen earlier in the year.

- ***New Jersey indicators were mixed prior to Sandy.***
- ***The national economy is moving forward, but the risks of going over the 'fiscal cliff' continue to weigh on the outlook.***

Going forward, the aftereffects of Sandy will dominate the economic scene for months. One early indicator of the storm's impact was a sharp, early-November decline in the Federal Reserve Bank of Philadelphia's index of regional manufacturing conditions. Many respondents reported that the storm curtailed production for at least a few days. New claims for unemployment insurance also rose steeply as workplaces closed throughout the state, though it's possible many workers who filed claims were quickly recalled to their jobs and were back at work before they could collect any benefits. On the whole, we don't know precisely what the storm will do to the overall state job market going into 2013, but almost certainly, sectors such as construction will add workers as rebuilding starts to accelerate.

Home construction was showing strong signs of revival in New Jersey even before the storm. Indeed, through the first nine months of 2012, 37.5 percent more housing permits were granted than in the same period in 2011. In fact, the total number of permits granted in January to September of 2012 was greater than for all of 2011. The permit figures translate into a recovery in homebuilding and a strong gain in New Jersey construction employment in October.

U.S. Economic Outlook

National economic indicators remain fairly mixed but on the whole a bit better than in the early part of the summer. Nonetheless, a great deal of uncertainty continues to impede national growth. On the plus side, job gains have strengthened to more than 150,000 a month and the unemployment rate has moved below 8 percent. Indicators of consumer confidence have reached multi-year highs. September saw a strong gain in retail sales. October sales at stores and auto dealers were down, but it seems fairly clear that Sandy, by shutting many stores and

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showrooms in the last few days of the month, accounted for the drop. Housing starts have gained some momentum, although they remain at very low levels, and home sales and prices are firming.

Other parts of the economy remain more tepid. Recent months have seen a marked pullback in capital goods orders, and manufacturing output has been flat for some time. Data suggests production declined sharply in October but, once again, closures related to Sandy appear to be behind the drop.

The softness in corporate activity and spending in the face of fairly well-maintained household demand appears to have two sources: Weakness in foreign markets and doubts about the near-term path of federal spending and taxation. European statistics confirm that the Continent's financial crisis has pushed it back into a mild recession. The Presidential election campaign clearly raised questions about the future implementation of the Affordable Care Act (so-called Obama care) and the Dodd-Frank financial regulation law. The election results confirmed that those statutes will not be repealed, providing clarity to businesses and investors about the future of two key economic sectors.

Now immediate concerns have to do with the so-called "fiscal cliff." Federal Reserve Chair Bernanke first used this term to describe the potential impact on January 1 if Congress allows the Bush tax cuts and the 2010 payroll tax cuts to expire, fails to enact the regular, annual adjustment to the Alternative Minimum Tax, and permits the automatic sequestration of large portions of federal spending.

With no action to prevent these changes, the U.S. economy will be forced to adjust to substantial tax increases and spending cuts very soon. The odds seem to favor legislative actions and policies that will back the nation away from the precipice of the cliff. It's possible that policymakers won't take steps until after Jan.1, but the President and congressional leadership have maintained that they will reach an agreement before then. Until there is some resolution, enormous amounts of uncertainty will affect markets and the economy as a whole. Business will be reluctant to commit to capital spending projects and will try to hold down production to prevent accumulation of potentially excessive inventories. This uncertainty clearly has contributed to the sharp, post-election pullback in the stock market.

While the election results removed some of the uncertainty weighing on the economy, much still remains.

In summary, while the election results removed a portion of the uncertainty weighing on the economy, many critical issues remain unresolved. In New Jersey and the Northeast, Sandy has added another volatile element to the mix. The implications of the storm will be important not just for New Jersey, but for the nation as a whole.
— *Charles Steindel*

Economic Analysis

Sandy's Legacy Likely to be Huge for the Shore, Less Statewide

Superstorm Sandy stands out as the greatest natural disaster in New Jersey's history. Thousands of New Jerseyans were evacuated from their homes, millions lost power, and virtually everybody coped with disruptions of everyday tasks and routines including commuting to work and fueling their cars. Some residents of Shore communities will be in temporary housing for months because their homes were destroyed or left uninhabitable. The winds and floods altered the very geography of the Shore itself. So there's just no question that Sandy overshadows last year's big storms — Irene, Lee, and the Halloween Blizzard.

But what does Sandy's impact mean for the state's economy as a whole? Last year, after Irene and Lee, we took a look at their potential impact on the entire state (http://www.state.nj.us/treasury/economics/documents/newsletter/2011/oct.pdf) and concluded their effects on the state's huge economy would be minor. Events showed our judgment was sound. One would be hard-pressed, looking only at the numbers on state-wide employment or income, to see any evidence that the storms took place.

Will Sandy tell a different story? The issue is not whether some parts of the state have been profoundly changed by the storm. The answer that question is a clear yes. A bigger concern is whether the storm will cause a major alteration in the state's economy as a whole.

Statisticians are now releasing data that will help calculate the cost of the storm. These include initial figures on the value of the production disrupted by the storm, the cost of providing immediate relief and restoring basic services, and the estimated expense of rebuilding homes, personal property, businesses, and infrastructure.

We have to distinguish the various ways the storm has and will affect New Jersey. The initial impact caused the virtual cessation of most economic activity during the storm's passage and in the days afterward as much of the state lost power and residents dramatically curtailed their travel. New Jersey's economy produces, in round numbers, about $10 billion in goods and services every week. Output was much less than that in the last week of October and the first week of November. The economy was further affected by Sandy's smaller cousin, Athena — a nasty, follow-up Nor'easter that hit the state with high winds and snow on November 7.

It's important to realize that much of the decline in output resulting from these two storms represents economic activity that was deferred — not lost forever.

Purchases not made during or immediately after the storm were or will be made now that the storms are over, factories should readily make up the gap in their production runs – and, perhaps sadly in their minds, children will make up for all the lost days of school attendance. While some output (most notably, the electricity not generated) won't be made up, relief and restoration activity will provide a considerable boost.

One problem that lingered was restoring full access to New York City. This was a prime concern and personal hardship to the hundreds of thousands of New Jerseyans who work there, but in the final statistical analysis, the labor of New Jerseyans who work in New York City primarily contributes to the output of New York City and State, not of New Jersey.

A more fundamental issue for New Jersey's economy is the storm's destruction. The dollar damage to homes, businesses, rail lines, bridges, beaches, cars, boardwalks, pipelines and other infrastructure amounted to tens of billions of dollars. What does this loss mean to the State's economy?

The key point here is that damage to possessions and properties will inevitably lead to replacement and re-

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pairs. We can expect that over the next few months and years, car and appliance sales and construction will be bolstered by replacement and rebuilding efforts.

Will the boost be noticeable? Nationwide, about 20 percent of Gross Domestic Product is spent on tangible products such as consumer durable goods, business equipment, and private and public construction.

Given the size of New Jersey's economy, this means that in a normal year, not affected by a cataclysmic storm, about $100 billion is spent in these categories with perhaps $25 billion to $30 billion in construction, and the balance on consumer durables and business equipment.

Replacing and rebuilding should indeed boost spending in these categories. The reconstruction process will make a major difference to the economies of the most damaged parts of the state. Statewide, the short-term impact is not likely to be as significant. However, in the longer run, if the storm spurs major changes in utility infrastructure and building codes, or changes the attractiveness of the Shore as a place to live or do business, it will gradually leave its footprints on the state's entire economy. Sandy was clearly a major disaster that will change the Shore economy. It's impact on the state's economy as a whole is unlikely to be large over the long run unless it spawns significant new, statewide policies.

Sandy was clearly a major disaster that will change the Shore economy. It's impact on the statewide economy likely will depend on the policies it spawns.

— *Charles Steindel*

New Jersey Business Pulse Survey

Businesses Stayed Cautious Prior to Sandy's Arrival

New Jersey businesses stayed neutral on current conditions but were more optimistic about the outlook for the global and state economies and generally upbeat about the outlook for their own companies in their views in September and October. These findings come from the New Jersey Business Pulse Survey administered by the New Jersey Department of the Treasury.

Fifty-seven firms responded to the September survey and 53 responded to the October survey. The survey includes 14 questions about current and perspective conditions and allows respondents to give their views on other topics of their choice. Detailed results may be found at http://www.state.nj.us/treasury/economicsurveyresults.shtml. This page also contains charts and tables summarizing the results, as well as an explanation on how indexes were constructed from the answers to the questions.

The October survey responses came in prior to Superstorm Sandy's Oct. 29 landfall and provide a useful pre-storm benchmark of how businesses in the state were faring before the storm.

General Conditions: Current Conditions Mixed, but the Outlook Is Somewhat Better

In September the index values summarizing the responses to the question about national and New Jersey conditions were both below 100, which may suggest that respondents saw some contraction in activity. Views improved somewhat in October to essentially neutral readings suggesting neither expansion nor contraction.

September saw panelists becoming a bit more pessimistic about upcoming conditions for both the nation and New Jersey. Indeed, the index reading for the national outlook edged below 100. However, October saw improvements in the outlook for national and local conditions.

Prospects for Revenues, Hiring and Capital Spending Stay Positive

Respondents continued to be broadly optimistic on the outlook for their own firm's revenues, employment, and capital spending, both within and (generally) outside of New Jersey. This pattern of more positive views about their own firm's outlook than for conditions outside the firm has held for a number of months. Respondents did not report major difficulties finding qualified job candidates for positions either inside or outside of New Jersey.

Product Prices and Input Costs

In both September and October firms reported some cuts in the prices they charge. They also continued to report that they were facing increases in input prices, though this was less marked in both September and October than in the preceding month, which suggests that recent declines in commodity prices have been becoming more visible to businesses.

Conclusion

The September and October results suggest basically stable conditions with some optimism about the future. The results appear to have been mildly better than those in the summer, and suggest the deterioration that started in the spring may have been reversing before Sandy. It's possible that the storm will affect survey results over the next few months. In the open-ended responses received in both September and October, panelists continue to express concerns about tax and regulatory issues, both at the state and the national levels, and made comments about the potential impact of the presidential election.— *Charles Steindel*

If your firm is interested in participating in this monthly survey, please contact Mary Filipowicz at 609-633-6781.

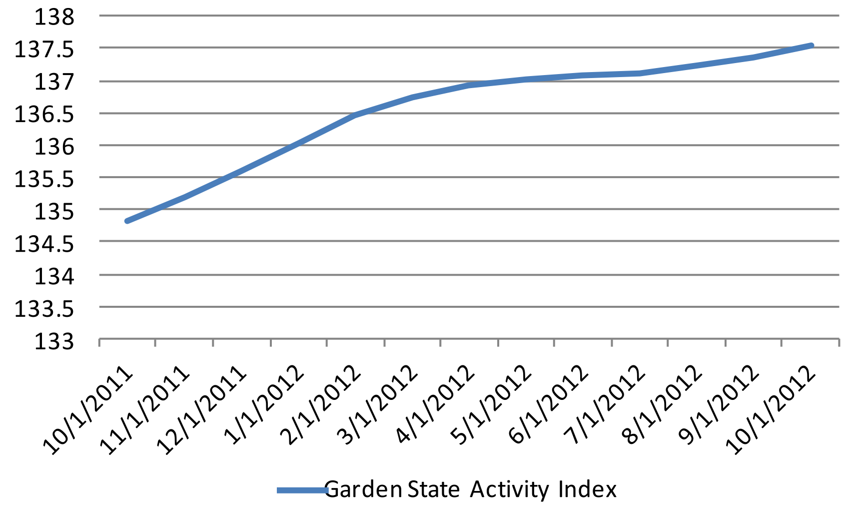
Garden State Activity Index

The *Garden State Activity Index* is our broad measure of monthly economic activity in New Jersey. The index incorporates information from three sources: the Federal Reserve Bank of New York's coincident index, the Federal Reserve Bank of Philadelphia's coincident index and the Philadelphia Fed's South Jersey Business Survey.

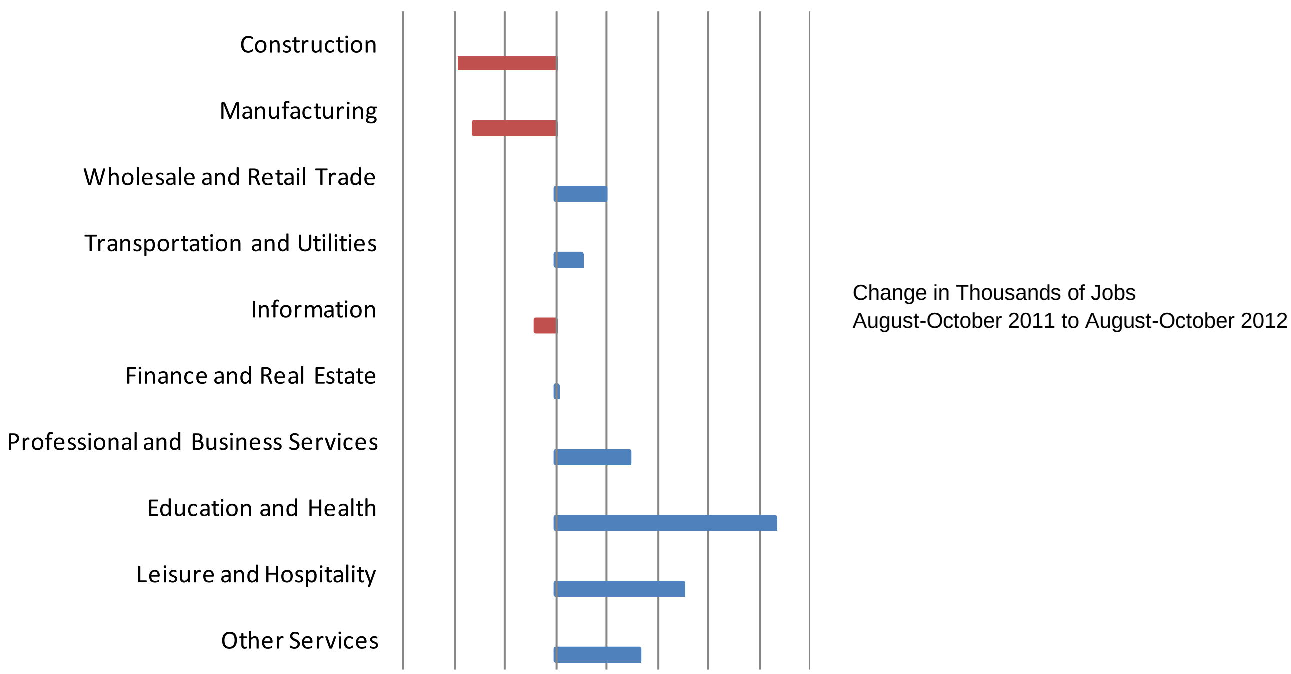
To construct the index we use principal components analysis, which takes a weighted average of the three Fed indicators. The composite index reflects the current state of the New Jersey economy.

Based on the most recent monthly data, the state economy has continued to grow at a moderate clip over the past year. This past October, New Jersey's economy reached an index level 2 percent higher than the level in October 2011.

-- *Andrew Lai*

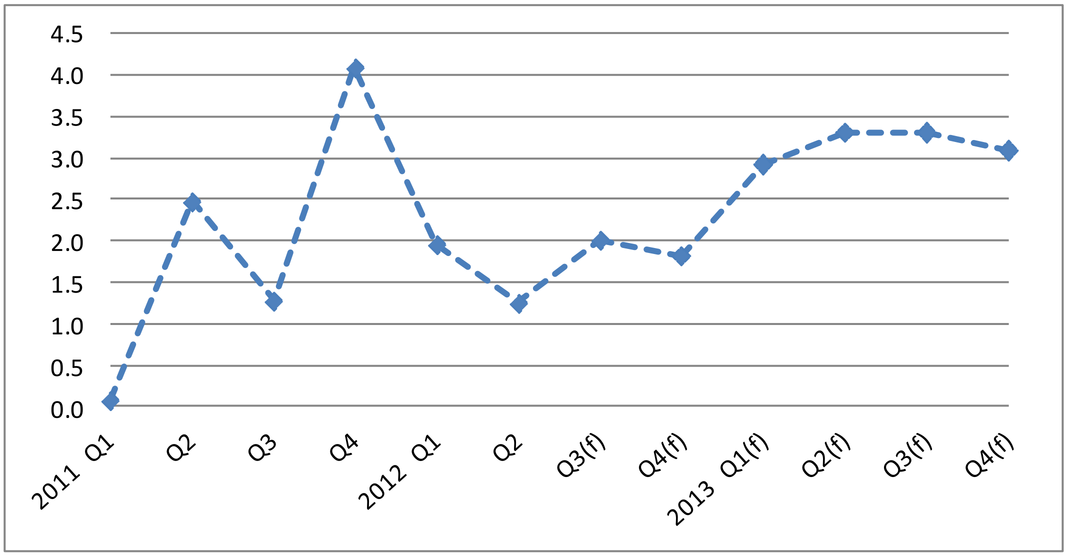


Private Industry Employment Trends



Data source: New Jersey Department of Labor

Real U.S. GDP Growth



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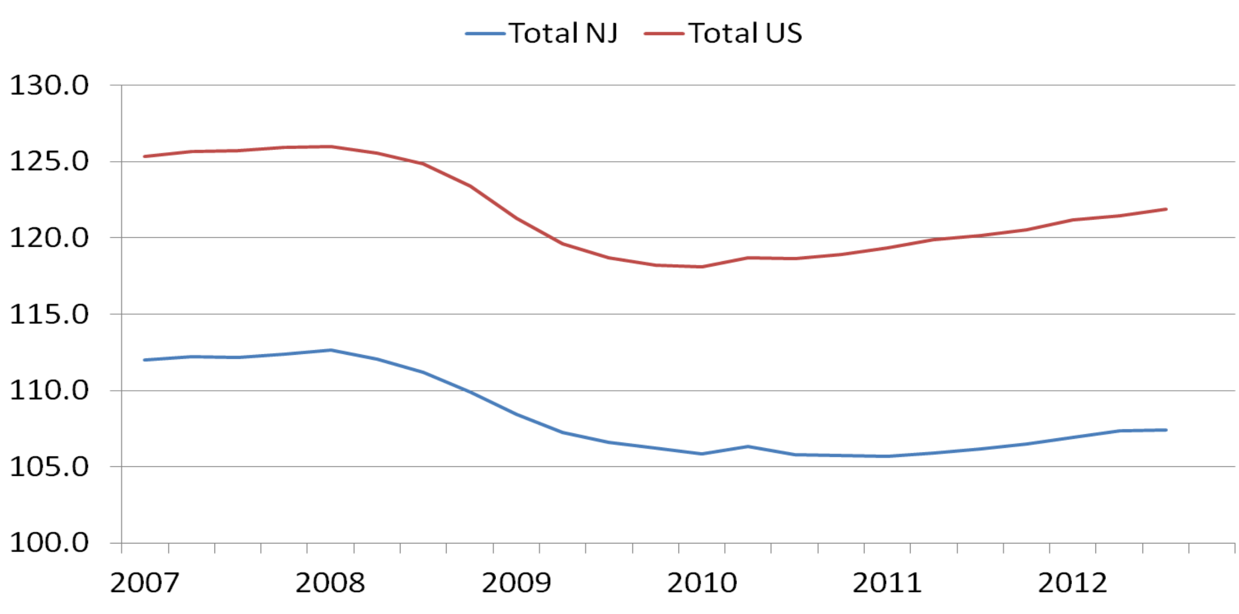
State & National Job Trends

Total Employment *(Relative Employment 1990=100)*

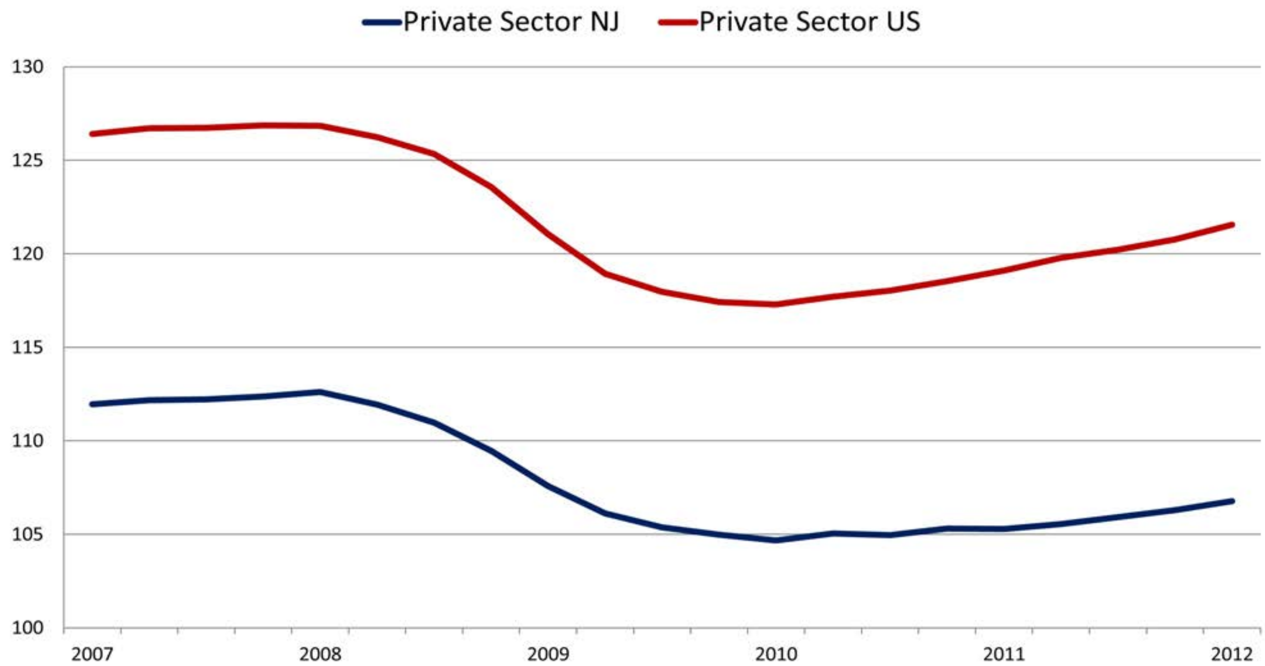
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



State & National Job Trends

Private Sector Jobs *(Relative Employment 1990=100)*

This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990



Data source: U.S. Bureau of Labor Statistics, New Jersey Department of Labor

Explanatory note: These charts track trends in total and private sector employment in New Jersey and compare them with those of the nation as whole measured against a 1990 baseline.